

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

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SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /097 W

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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 8517

INFO AMCONSUL PERTH

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E.O. 11652: N/A

TAGS: EMIN, ENRG, AS

SUBJECT: AUSTRALIA'S NORTH WEST SHELF NATURAL GAS PROJECT

1. EMBOFF, ACCOMPANIED BY JOHN G. MCMILLIAN, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER OF APCO OIL CORP. OF HOUSTON, AND NORTHWEST PIPELINE CORP. OF SALT LAKE CITY, MET WITH OFFICIALS OF THE DEPT. OF NATIONAL RESOURCES TO DISCUSS THE NORTH WEST SHELF (NWS) PROJECT. MCMILLIAN WAS SEEKING INFORMATION ON INVESTMENT OPPORTUNITIES IN THE NWS, PARTICULARLY AS THEY RELATED TO THE CONSTRUCTION OF A NATURAL GAS PIPELINE TO AN ONSHORE LIQUIFIED NATURAL GAS (LNG) FACILITY, AND THE POSSIBLE CONSTRUCTION OF A PETROCHEMICAL PLANT IN THE REGION.

2. THE WESTERN AUSTRALIAN GOVERNMENT'S PLAN FOR THE NWS WOULD SEE THE DEVELOPMENT OF THE NORTH RANKIN FIELD FIRST. THE PROVEN RESERVES ARE FIVE TRILLION CUBIC FEET WITH EXPLORATORY WORK STILL IN PROGRESS. THE NATURAL GAS WOULD BE PRODUCED FROM AVERAGE DEPTHS OF 450 FEET AT A RATE OF 1.3 BILLION CUBIC FEET OF NATURAL GAS PER DAY AND PIPED ASHORE AND DIVIDED BETWEEN AN LNG PLANT AND A GAS

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TRANSMISSION FACILITY TO SERVE PERTH.

3. SINCE THE \$A2000 MILLION COST TO GET THE NWS PROJECT OFF THE GROUND IS A LARGE INVESTMENT, MCMILLIAN ASKED WHETHER THE COMMONWEALTH COULD GIVE ASSURANCES THAT CONSTRUCTION COSTS WOULD BE SUBSIDIZED BEYOND A CERTAIN LEVEL, AND WHETHER OR NOT IT WOULD SUPPORT MEASURES TO ASSURE THAT NATURAL GAS PRICES WOULD BE MAINTAINED AT A FAIR FLOOR PRICE LEVEL. GOA RESPONSE WAS NON-COMMITTAL. APPARENTLY THE GOA HAS NEVER OFFERED GUARANTEES TO ASSURE THAT CONSTRUCTION COSTS DO NOT ESCALATE RAPIDLY. HOWEVER, THE COMMONWEALTH, THROUGH ITS EXPORT CONTROL POWERS, CAN CONTROL EXPORT PRICES.

4. NATIONAL RESOURCES OFFICIALS WERE VERY RESERVED ABOUT MANY ASPECTS OF THE NWS BECAUSE OF THE SENSITIVITY OF THE CURRENT NEGOTIATIONS BETWEEN BOCAL (THE OPERATING COMPANY FOR THE NWS CONSORTIUM OF WOODSIDE-BURMAH, SHELL, BRITISH PETROLEUM, AND STANDARD OIL OF CALIFORNIA), THE WESTERN AUSTRALIAN GOVERNMENT, AND THE COMMONWEALTH. ONE KEY ISSUE IS THE LEVEL OF LNG EXPORTS THAT THE COMMONWEALTH AND THE WESTERN AUSTRALIAN GOVERNMENT WILL PERMIT. THE LARGE INVESTMENT REQUIRED IN THE PROJECT REQUIRES A LARGE (POSSIBLY AS MUCH AS 75 PERCENT) EXPORT OF NWS PRODUCT TO OFFSET THE LIMITED SIZE OF THE AUSTRALIAN MARKET. BUT THE WESTERN AUSTRALIAN GOVERNMENT WANTS TO KEEP THE EXPORT LEVEL LOW TO ENSURE THAT RESERVES WILL BE SUFFICIENT TO SERVE PERTH FOR MANY YEARS TO COME. PERTH CAN CONSUME ABOUT 300,000 MILLION CUBIC FEET OF NATURAL GAS PER DAY, AN AMOUNT THAT DOES NOT JUSTIFY THE EXPENSE OF CONSTRUCTING A PIPELINE FROM THE NWS TO PERTH, LET ALONE INVESTMENT IN THE NWS PROJECT.

5. THE OTHER ISSUE THAT HAD BEEN DELAYING THE NWS PROJECT WAS THE LEVEL OF FOREIGN EQUITY THAT WOULD BE PERMITTED IN THE PROJECT BY THE GOA. THIS ISSUE HAS BEEN RESOLVED AS THE GOA HAS PUBLICLY STATED THAT GREATER THAN 50 PERCENT FOREIGN EQUITY WILL BE PERMITTED IN THE PROJECT IF INVESTORS CANNOT BE FOUND IN AUSTRALIA.

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6. COMMENT: MOST PETROLEUM INDUSTRY OFFICIALS FEEL IT IS ESSENTIAL THAT THE NWS GET THE GO AHEAD IN THE VERY NEAR FUTURE. OTHERWISE POTENTIAL INVESTORS MIGHT SEEK OTHER PROJECTS, AND LNG CONSUMERS MIGHT SEEK OTHER SUPPLIES. (BOTH JAPANESE AND AMERICAN INTERESTS HAVE RECENTLY VISITED AUSTRALIA TO DETERMINE THE AVAILABILITY OF LNG.)

7. NEGOTIATIONS BETWEEN BOCAL AND THE WESTERN AUSTRALIAN GOVERNMENT ARE FAIRLY ADVANCED. EXACTLY WHAT CONTACT HAS BEEN MADE WITH THE COMMONWEALTH IS NOT KNOWN. THE FACT THAT THE NATIONAL RESOURCES OFFICIALS WERE NOT VERY RESPONSIVE MAY INDICATE (1) THAT THE BOCAL AND THE WESTERN AUSTRALIAN GOVERNMENT HAVE NOT YET SUPPLIED THE COMMONWEALTH WITH THE DETAILS OF THEIR PROPOSAL; OR (2) THAT QUIET IS BEING OBSERVED UNTIL THE NEGOTIATIONS ARE COMPLETED BETWEEN THE THREE PARTIES. PUBLIC ANNOUNCEMENTS SHOULD BE FORTHCOMING SOON.
HARGROVE

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